

VOTE 9. - OFFICE OF THE REVENUE COMMISSIONERS

14. Revenue Account

Basis for Audit

An account showing all revenue received and paid over to the Exchequer by the Revenue Commissioners is furnished to me annually. I am required under Section 3 of the Comptroller and Auditor General (Amendment) Act, 1993, to carry out such examinations of this account as I consider appropriate in order to satisfy myself as to its completeness and accuracy and to report to Dáil Éireann on the results of my examinations. The results of my examinations have been generally satisfactory.

I am also required under Section 3 of the Comptroller and Auditor General (Amendment) Act, 1993 to carry out such examinations as I consider appropriate in order to ascertain whether systems, procedures and practices have been established that are adequate to secure an effective check on the assessment, collection and proper allocation of the revenue of the State and to satisfy myself that the manner in which they are being employed and applied is adequate. Paragraph 22 refers to matters arising from this examination.

Revenue Collected

Revenue collected under its main headings in 1999 was as follows-

	Gross Receipts £m	Repayments ⁷ £m	Net Receipts £m	1998 Net Receipts £m
Income Tax	6,896	590	6,306	5,742
Value Added Tax	6,587	1,692	4,895	4,267
Excise	3,321	158	3,163	2,825
Corporation Tax	2,840	129	2,711	2,059
Stamps	739	20	719	541
Customs	151	7	144	160
Capital Acquisitions Tax	155	4	151	112
Capital Gains Tax	362	6	356	193
Residential Property Tax	2	1	1	1
	21,053	2,607	18,446	15,900

The amount paid into the Exchequer during 1999 was £18,473m leaving a balance of £37m prepaid to the Exchequer compared to a balance of £10m prepaid at the end of the previous year. As the final lodgment to the Exchequer at year end is required to be made on 31 December, before final reconciliations for each tax-head can be completed, there is necessarily an element of estimation which can result in over or under lodgments by Revenue to the Exchequer.

⁷

Including drawbacks and allowances.

15. Write Offs

The Revenue Commissioners have furnished me with details of taxes written off during the year ended 31 December 1999. The total amount written off is made up as follows

Tax	1999 £'000	1998 £'000
Value Added Tax	32,833	79,128
PAYE	15,018	47,158
Corporation Tax	5,573	15,412
Income Tax	19,860	19,762
Health/Social Insurance-Self Employed	-	109
Other Taxes	2,066	5,342
PRSI	12,959	49,582
	88,309	216,493

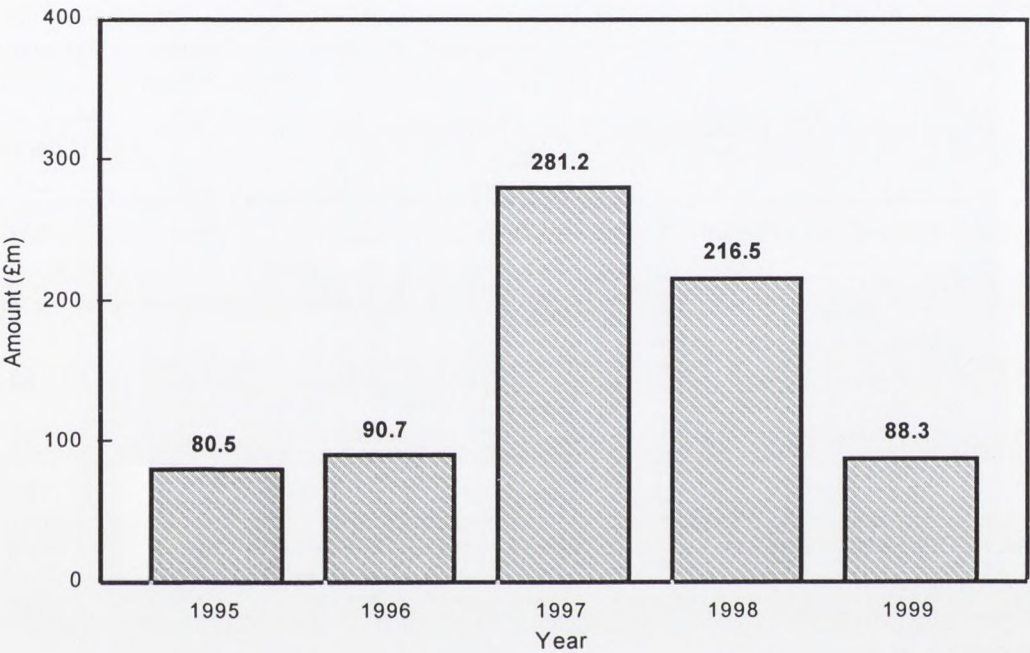
The distribution according to the grounds of write off is

Grounds of write-off	No. of Cases	1999 £'000	1998 £'000
Liquidation/Receivership/Bankruptcy	475	28,457	92,522
Ceased trading - No Assets	2,347	33,128	52,958
Deceased and Estate Insolvent	194	3,324	2,864
Uneconomic to pursue	519	6,110	54,192
Unfounded Liability	40	2,397	85
Cannot be traced / Outside Jurisdiction	403	5,573	7,099
Compassionate Grounds	83	608	4,030
Uncollectable due to financial circumstances of taxpayer	439	8,395	2,073
Examinership	1	317	670
	4,501	88,309	216,493

In 1996, the Commissioners implemented a revised write-off policy with a view to deleting from their records the large amount of debts which were old and uncollectable and in the case of estimated assessments likely to overstate the actual liabilities. The objective of the programme was that, after a number of years, the debt showing on the books would be more realistic and in a large measure collectable, enabling resources to be better targeted and more effectively deployed in collecting arrears. The key elements of the programme approach are the automated write-off of small, uncollectable amounts, the identification and subsequent write-off of unfounded liabilities, the write off of liquidation cases early in the liquidation process and a redoubling of efforts under existing collection procedures.

The impact of the programme can be seen from Figure 1 which shows the dramatic increase in write-off levels during 1997 and 1998 and a return to earlier levels in 1999. The programme is continuing and the major reduction in write-offs in 1999 arose largely because the backlog of liquidation cases, which had existed at the start of the implementation of the new policy, had been brought up to date. The occasion to use automated write-off programmes did not arise during 1999.

Figure 1 - Tax Written-Off 1995 - 1999



The Internal Audit Branch in Revenue undertakes an annual examination of a sample of cases written off. A random sample of 100 cases was examined in respect of 1997 write-offs. The internal audit did not examine cases where taxes were automatically written off or liquidation and examinership cases. The sample examined, represented just under 4% of the remaining cases. The 1998 internal audit included liquidation and examinership cases but not automatic write-offs. A sample of 225 cases was examined representing 4% of the cases manually written off. The results of both audits were satisfactory and while some minor errors were noted e.g. misclassification and incomplete paperwork, no instances were found where tax was improperly written off. The internal audit of 1999 write-offs has recently commenced with a target of 185 or just over 4% of cases.

I have also made an examination of a sample of cases representing 12% of the value of 1999 write-offs through a focus on high value cases. As a result, I am satisfied with the operation of procedures and the action taken.

16. Outstanding Taxes and PRSI

Table 3 was prepared on the basis of information furnished by the Revenue Commissioners and reflects the activities and transactions in the twelve month period ended 31 May 2000 - the latest date for which data was available at the time of finalising my Report.

Table 3. - Outstanding Taxes and PRSI

Balance at 31 May 1999 £m	Tax or PRSI	Charges/ Estimates Raised £m	Paid £m	Balance at 31 May 2000 £m	Estimate of amount likely to be collected £m
494	Income Tax (Excluding PAYE)	1,236	1,342	388	203
-	DIRT	115	115	-	-
87	VAT (Declared Liabilities Net of Repayments)	4,268	4,255	100	84
146	VAT (Estimates)	28	24	150	27
79	PAYE (Declared Liabilities)	4,982	4,992	69	43
27	PAYE (Estimates)	203	208	22	8
87	PRSI (Declared Liabilities)	2,428	2,444	71	43
22	PRSI (Estimates)	107	112	17	7
162	Corporation Tax	2,713	2,706	169	101
44	Capital Gains Tax	373	367	50	30
13	Capital Acquisitions Tax	155	155	13	11
6	Abolished Taxes	2	2	6	2.5
1,167	Total	16,610	16,722	1,055	559.5

The balance outstanding at 31 May 2000 of £1,055m is £112m less than at the same point in 1999. It is estimated that only £559.5m or 53% of the total outstanding is likely to be eventually collected. However, this compares with an estimated collection rate of 46% at May 1999. The estimation of the amount likely to be collected takes into account such factors as anticipated reductions of estimated amounts brought forward, the level of liquidations and business closures and historical business patterns.

While the table records a 'nil' balance in respect of DIRT outstanding as at 31 May 2000, it is expected that the continuing audits by Revenue into DIRT compliance by the financial institutions (see Paragraph 21) will yield significant payments of arrears, interest and penalties.

17. Prosecution of Non-Filers

A summary of prosecution action in 1999 for failure to file Income Tax and Corporation Tax returns is as follows:

	Income Tax	Corporation Tax	Total *
Awaiting court hearing 1 January 1999	1,596	609	2,205
Legal proceedings instituted	2,369	400	2,769
Cases heard	1,159	85	1,244
Awaiting court hearing 31 December 1999	2,806	924	3,730

* *Provisional - the Revenue Solicitor's Office is currently reviewing the status of all cases. The opening balance as shown in the table above represents an amendment of earlier figures and the remaining figures will be subject to adjustment once the review has been completed.*

Fines were imposed in the cases heard to a total value of £1,174,530.

Until 1999, a successful conviction in respect of a non-filing offence did not always result in the convicted person submitting the outstanding tax returns as the offender was not compelled to do so. A legal amendment in the Finance Act, 1999 allows the prosecuting solicitor to apply to the court for an order requiring the convicted person to submit the outstanding returns. This was instituted initially in the Dublin area and is now the practice in all cases.

A summary of the position over the period 1995 to 1999 is outlined in Table 4 below.

Table 4 - Prosecution of Non-Filers in period 1995-1999

	1995	1996	1997	1998	1999
Legal Proceedings Instituted	364	774	920	2,295	2,769
Cases Heard & Fines Imposed	122	362	291	857	1,244
Value of Fines Imposed (£)	63,650	170,500	174,060	709,090	1,174,530
Awaiting Court Hearing at y/end	242	654	1,565	2,205	3,730

18. Revenue Audit Programme

An effective tax system must incorporate procedures for verifying the validity of the returns submitted by taxpayers. This involves the desk checking of returns for completeness, accuracy and reasonableness and on-the-spot inspection of documents and records.

The majority of audits carried out by the Revenue Commissioners are specific to tax-heads, like VAT and PAYE, but a significant number of comprehensive audits are also carried out which may focus on all or any taxes payable but in practice are primarily aimed at Income Tax, Corporation Tax and Capital Gains Tax. There is also a body of work which comes under the general category of Revenue audit arising out of the activities of the investigation and anti-avoidance branches. The outcome of the Revenue audit programme is summarised in Table 5. The further reduction in 1999 of 767 in the number of audits completed was due mainly to

- the transfer of auditors to special project work connected with the various tribunals of inquiry, the DIRT and Ansbacher projects
- the introduction of a stricter penalties regime in 1998 led to delays in achieving taxpayers' agreement to proposed audit settlements resulting in an increase of 1,339 in the number of audits in progress which totalled 6,429 at 31 December 1999
- an on-the-job training programme to enable auditors of Higher Tax Officer grade to specialise in more than one tax area and to audit accounts of some self-employed taxpayers.

Table 5 - Revenue Audit Programme

Audit Type	Number of audits completed		Yield £m	
	1999	1998	1999	1998 ^a
Comprehensive	2,512	2,844	47.3	61.5
Value Added Tax	5,101	6,886	31.9	44.1
PAYE Employers	2,768	2,824	12.3	12.9
Relevant Contracts Tax (RCT)	384	261	1.5	1.4
Combined Fiduciary (PAYE, VAT, etc.) ^b	892	735	3.0	2.3
Capital Acquisitions Tax	490	293	3.2	3.3
Verification ^c	1,848	4,314	3.1	6.8
Desk Verification ^d	3,400	-	6.9	-
Investigation Branch	7	22	0.2	1.3
Anti - Avoidance	26	16	1.6	2.9
Total	17,428	18,195	111.0	136.5

(a) Revised 1998 figures.

(b) Formerly included under Relevant Contracts Tax. Up to 1998 such audits were confined mainly to the Construction Sector District.

(c) 1999 is the first year that this type of audit is separately reported because of the increase in verification activity. In previous years they were shown under the main audit headings. The 1998 figures have been restated accordingly.

(d) These mainly relate to queries on VAT repayment claims and to adjustments to tax computations in returns filed for income tax, corporation tax and capital gains tax. In previous years they were shown under the main audit headings. Figures for 1998 are included with verification audits.

Table 6 analyses the number of audits in each of the main audit types by turnover or overall income of the entity or person being audited. The "not known" category includes cases selected for audit because of the unavailability of complete financial data.

Table 6 - Audits Completed by Turnover

	Number of audits by turnover band at selection					Total
	Turnover not known	Less than £250,000	£250,000 to £1m	£1m to £5m	Greater than £5m	
Comprehensive Audits	477	1,357	377	201	100	2,512
Value Added Tax	306	2,806	1,122	561	306	5,101
PAYE Employers	194	997	913	526	138	2,768
Relevant Contracts Tax	54	223	88	15	4	384
Combined Fiduciary	553	134	98	98	9	892
Total	1,584	5,517	2,598	1,401	557	11,657

Comprehensive Audits

As part of the self assessment system, comprehensive audits are carried out following the review of returns made for Income Tax and Corporation Tax purposes. 296,805 returns were issued for Income Tax for the 1998/99 tax year and 80,526 Corporation Tax returns were issued for accounting periods ending in 1998 making the total of returns issued 377,331. A total of 2,512 comprehensive audits were completed in the year. The results of this audit activity are set out in Table 7. The yield from comprehensive audits is analysed in Table 8.

Table 7 - Comprehensive Audit Activity 1999

Audit Activity	Total		Income Tax Returns		Corporation Tax Returns	
Audits in progress at 1/1/99	1,955		1,179		776	
Audits initiated in 1999	<u>2,871</u>		<u>2,246</u>		<u>625</u>	
Total		4,826		3,425		1,401
Returns accepted	760		531		229	
Cases closed with additional liability	<u>1,752</u>		<u>1,379</u>		<u>373</u>	
		2,512		1,910		602
Audits in progress at 31/12/1999		2,314		1,515		799

Table 8 - Yield from Comprehensive Audits

	Income Tax		Corporation Tax	
	Number	Yield £'000	Number	Yield £'000
Returns Accepted - No additional tax payable	531	-	229	-
Agreed settlements				
£1 - £5,000	576	1,537	121	405
£5,001 - £50,000	640	9,745	182	3,458
£50,001 - £100,000	73	5,861	29	2,013
Over £100,000	42	10,394	26	9,953
Referred to Collector General for enforcement action (a)	23	410	4	269
Settled by restriction of losses carried forward to future years (b)	25	338	11	2,855
Totals	1,910	28,285	602	18,953

- Where the Inspector is unsuccessful in collecting the additional tax and interest arising on audit adjustments, the amounts are referred to the Collector General. It is likely that the amounts eventually collected by the Collector General will be significantly less than the full amounts shown.
- A number of audit settlements involve the restriction of losses available for carry forward against future years' profits, thereby providing higher tax yield in those years. The yield shown assumes that taxable profits in future years will fully absorb the losses. This may not always be the position and hence the yield figure may be less than the figure shown.
- The amounts of the highest individual settlements in 1999 were £1m and £3,495,165 for Income Tax and Corporation Tax respectively.
- Interest charges of £9.21m and penalties of £4.53m are included in the yield from agreed settlements.

Comprehensive Audit Yield 1995 - 1999

The yield arising from comprehensive audits over the five year period from 1995 to 1999 is shown in Table 9 following, together with details of the audits completed for Income Tax and Corporation Tax in each year.

Table 9 - Comprehensive Audit Yield 1995 - 1999

Income Tax	1995	1996	1997	1998	1999
Audits Completed	2,625	2,475	2,358	2,079	1,910
Total Yield in Year	£23.49m	£24.1m	£27.41m	£31.8m	£28.29m

Corporation Tax	1995	1996	1997	1998	1999
Audits Completed	1,267	1,281	966	765	602
Total Yield in Year	£27.8m	£44.43m	£31.27m	£29.7m	£18.96m

While the number of new audits completed each year and the yield, have remained fairly constant for Income Tax over the period, there has been a steady fall for Corporation Tax since 1996. The Revenue Commissioners have informed me that the particular reduction in the number of Corporation Tax audits and in the audit yield arose because

- in recent years more emphasis has been placed on the audit of larger and more complex cases which tend to be more time consuming with a consequent reduction in the number of audits completed
- the transfer of audit staff in 1996 and 1997 to other work areas such as Compliance, Prosecution and Criminal Assets Bureau
- specialist training on computer audit software was undertaken in 1997 and 1999
- on the job training for 160 auditors as part of a restructuring agreement commenced in 1998 and continued through 1999
- 24 auditors were transferred at various times during 1999 to special project work connected with the various Tribunals of Inquiry, the DIRT and Ansbacher projects.

Random Audits

Random audits were carried out as part of the comprehensive audit programme up to 1997. Since 1998 random audits are also carried out as part of the VAT and PAYE/PRSI audit programmes. The objective is that 2% of all audits undertaken in the year will be selected randomly. This would mean that almost 210 random audits would be completed in 1999. In the event, 192 random audits were completed in 1999 consisting of 91 comprehensive, 48 VAT and 53 PAYE/PRSI audits. Additional liabilities of £116,540 including £29,266 in interest and penalties were assessed in 41 cases while the returns of the other 151 taxpayers were accepted as originally submitted.

19. Investigation Branch Settlements and Prosecutions

The reorganisation in 1997 of the Investigation Branch, which deals with cases of systematic or widespread tax evasion, concentrated the greater part of the staffing resource in pursuing a prosecution strategy in contrast to the previously prevailing policy of accepting monetary settlements in virtually all cases. As a result, most large and serious cases which would have been sent to Investigation Branch are now finalised through the audit district and only particularly complex cases which may, for example, involve dealing with matters in the Courts are forwarded to Investigation Branch. During 1999, investigations were completed in 7 cases resulting in back-duty settlements amounting to £183,000 (22 investigations completed in 1998 yielded £1,337,382 in 11 cases). In addition, investigations were discontinued in 4 cases where no yield was likely. At the year end, 56 cases were under investigation.

Under the Revenue prosecution strategy, audit districts are required to forward cases to Investigation Branch for investigation with a view to criminal prosecution where there is prima facie evidence of revenue offences having been committed. These cases are further evaluated within the Branch before commencement of the very resource intensive criminal investigation work. The Accounting Officer has supplied me with the following information in relation to prosecutions in 1999.

Cases in hands at 1 January 1999	26
Cases accepted for investigation in 1999	13
Cases dropped due to lack of evidence	(6)
Cases decided in Court in 1999	(3)
	<hr/>
Cases in hands at 31 December 1999	<u>30</u>

Of the cases decided in Court in 1999, one was convicted with a fine of £15,000 imposed for submitting false PAYE/PRSI returns, one was acquitted and the other case ended when the taxpayer's appeal against an earlier fine of £1,000 was withdrawn.

Of the 30 cases on hands at year end, 24 are still under investigation, 4 are proceeding to prosecution and convictions have since been secured in 2 cases.

20. The Appeal Commissioners

If not satisfied with the decision of an inspector of taxes, a taxpayer has, under Part 40 (and other Sections) of the Taxes Consolidation Act 1997, a right of appeal to the Appeal Commissioners, who are appointed by the Minister for Finance. While the salary and expenses of the Appeal Commissioners are paid from the Revenue Vote, the Appeal Commissioners operate independently from Revenue. The appeal procedures are set out in the Act. If dissatisfied with an Appeal Commissioner's decision the general position is that the taxpayer may then seek a full rehearing in the Circuit Court⁸, while matters of law (as opposed to fact) may be continued by the taxpayer or Revenue through the High Court and Supreme Court. There are presently two Appeal Commissioners.

As part of my ongoing general review of the systems, procedures and practices as applied to the assessment and collection of revenue, I sought information as to the annual throughput of appeals cases and as to the overall summary of outcomes *e.g.* decided in favour of the taxpayer or Revenue, appealed to the Courts and of the extent of cases on hand. I was informed that each case was dealt with on an individual basis from scheduling to hearing. While details of issues of principle are published, the Appeal Commissioners are not a tribunal of record and are not required to and, do not, retain a written record of determinations, proceedings or documents submitted. Statistical or summary records were not maintained either by the Appeal Commissioners or the Tax Inspectorate.

However, the Revenue Commissioners estimate that between 500 and 600 appeals were lodged with the Appeal Commissioners in 1999 and that approximately 250 cases are heard and decided annually. The remainder of appeals are either withdrawn or settled before going to a hearing.

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In the case of Capital Acquisitions Tax, Revenue may seek a full rehearing in the Circuit Court.

21. Special Investigations

During 1999 Revenue were engaged in a number of special investigations which are summarised as follows:

DIRT and Financial Institutions

An investigation into the administration of Deposit Interest Retention Tax was carried out by the Comptroller and Auditor General and was followed by an inquiry by a Sub Committee of the Committee of Public Accounts (PAC). The Sub Committee Report issued in December 1999 recommended that Revenue undertake a full look back audit to April 1986 in each financial institution to assess any DIRT liability. DIRT audits were undertaken in 37 financial institutions and, to date, settlements have been reached and payments made to Revenue as follows:

Institution	DIRT Paid £m	Interest & Penalties £m	Total £m
Bank of Ireland Group (4 institutions)	12.7	17.8	30.5
Agricultural Credit Corporation	7.5	10.4	17.9
Irish Life and Permanent	3.7	3.8	7.5
Ulster Bank Group (3 institutions)	1.7	2.5	4.2
Educational Building Society	1.3	1.5	2.8
Total	26.9	36.0	62.9

Under the provisions of the Finance Act 2000, the Revenue Commissioners are required to report the audit results to the PAC before 1 November 2000.

Offshore Investments via National Irish Bank

Following media revelations about tax evasion by Irish residents who invested in an offshore investment scheme operated by National Irish Bank the bank provided Revenue with details of 429 individuals involved. By 24 July 2000, settlements were reached in 232 cases totalling £12,435,107 including interest of £4,217,798 and penalties of £2,465,644. In addition, payments on account totalling £6,974,323 were received in respect of other unresolved cases. 12 individuals have been referred for criminal investigation with a view to prosecution through the Courts.

Ansbacher (Cayman) Limited

In September 1999, Revenue received a copy of the Report by the Inspector appointed by the Minister for Trade, Enterprise and Employment to examine the bank accounts of Ansbacher (Cayman) Limited held in Guinness and Mahon Bank. The Report contained information about the involvement of 120 named individuals in these bank accounts. A Special Project Team authorised under section 21(3)(e) of the Companies Act 1990 was brought together to examine the tax affairs of the named individuals. This examination is ongoing.

Tribunals

Matters disclosed at the Moriarty and Flood tribunals which suggest that tax evasion may have occurred are being investigated as they come to notice.

Pick-Me-Up Schemes

Pick-Me-Up-Schemes involved payments for goods and services incurred by a political party being met directly by those who wished to support the party. Revenue investigated the tax treatment of these expenses and found that a large number of traders had understated their tax liabilities. To date, Revenue have collected £350,000 as payments on account of such additional liabilities. Enquiries are continuing.

22. Tax Compliance and the Special Enquiry Branch

Background

Tax Compliance and the Black Economy

Since the changeover in 1988 to a system of self-assessment, the onus is on a taxpayer to make a complete and timely tax return and to remit the amount of any tax due in accordance with the statutory requirements and the arrangements and procedures set out by the Revenue Commissioners. The degree of non-compliance with the tax system ranges from the filing of late returns, filing of incorrect returns and failure to pay tax or duty as it falls due, through the filing of incomplete returns, to the failure to file returns, failure to register or comply with any statutory obligations and outright evasion which are the features of the black economy. While the term 'shadow' or 'informal' economy is used to describe that part of total economic activity which is excluded from the official measurement process, the term 'black economy' is reserved for those components which are not recorded because of the desire of participants to conceal their activities. Such components include individual or corporate incomes not reported in order to evade taxation, working while claiming unemployment payments and various criminal activities. People operate in the black economy to varying degrees. There are those who are unknown to the tax authorities, those who are known but conceal a specific source of economic activity and those who understate their income from declared sources.

Size and Effect of the Black Economy

By its nature, it is difficult to measure the size of the black economy and estimates are generally based on high-level economic analysis. A 1997 article⁹ on the black economy, concluded that the available evidence pointed to the existence of a black economy of a significant scale in Ireland and, having outlined five possible measurement approaches, suggested that the size of the black economy might lie between 3% and 11% of GNP (£1.5bn to £5.7bn). The damaging effect goes further than the loss of tax revenue as an unfair advantage is given to operators in the black economy over compliant businesses and traders; there is a reduction in public confidence in the administration of tax; and, if a perception persists that the Revenue Commissioners are not effectively tackling non-compliance, the numbers operating in the black economy will grow.

Revenue Approaches to the Problem

The Statement of Strategy¹⁰ of the Revenue Commissioners stated that the overall Revenue approach was to achieve the highest possible levels of voluntary compliance. There would be early effective enforcement for the non-compliant and public confidence in the equity of Revenue administration

⁹ *The Black Economy in Ireland, Gabriel P. Fagan; Irish Banking Review, July 1997.*

¹⁰ *Statement of Strategy 1997-1999; The second Corporate Plan of the Office of the Revenue Commissioners*

would be maintained by adopting a tough stance on tax evasion and avoidance, the black economy and other illegal activity. The main elements of Revenue's approach to tackling the black economy are identification of all those liable for taxes and duties, in-depth investigation of persons and groups engaged in evasion, particularly where there is a likelihood of significant back-taxes and in some instances the referral of cases to the Director of Public Prosecutions with a view to prosecution. Where the liability is unlikely to have been substantial, the focus is on getting cases registered and on a proper tax footing for the future.

Revenue action against the black economy is undertaken in many divisions of the organisation and a summary is given in Table 10. Activities range from information which may be noted from the selection and review of cases in the course of desk-based routine processing of tax returns, through the outdoor intelligence gathering activities of units such as the Special Enquiry Branch, Joint Inspection Units (with the Department of Social, Community and Family Affairs) and the Revenue Mobile Service, to joint operations with the Gardaí in the Customs National Drugs Team and the Criminal Assets Bureau. Revenue is part of the Black Economy Monitoring Group which includes representatives of the Department of Social, Community and Family Affairs, the CIF, IBEC and ICTU and which monitors trends in black economy activity and reviews the effectiveness of measures taken to combat tax and social welfare fraud.

Table 10 - Areas of Revenue with Some Responsibility for Dealing with the Black Economy

Office of the Chief Inspector of Taxes
Special Enquiry Branch and Local Enquiry Units (outside Dublin)
Investigation Branch
Audit Districts and Units throughout the country
Compliance Districts and Units throughout the country
Joint Inspection Units with Dept. of Social, Community and Family Affairs
Anti-Avoidance Unit
Office of the Collector General
AIM Teams and Case Review Unit
Dedicated Pursuit Unit
Customs and Excise
Revenue Mobile Service
Investigation Branch
C&E Anti-Fraud and Prosecutions Unit
Local Collection Units
Customs and Excise Audit Units
General Excise Compliance
Customs National Drugs Team
National Freight Intelligence Unit
Capital Taxes Division
Collection and Enforcement Branch
Audit and Investigation Branch
Direct Taxes Policy and Legislation Division
Capital Gains Tax/Anti-Evasion/Avoidance & Financial Services Branch
Indirect Taxes Policy and Legislation Division
VAT, EU and National Excises Policy/Legislation and Administration Branches
Office of the Revenue Solicitor
Prosecution and Civil Penalties Unit

Revenue has also established an internal group under the aegis of its Partnership Committee to review and develop new strategies to tackle the black economy.

Audit Objectives

Of the various avenues through which Revenue impacts on the black economy, it was decided for reasons of time and resources to confine my audit to the special enquiry function and, in particular, the Special Enquiry Branch (SEB). This area has a key role as it is in receipt of large amounts of third party information and has a capacity and a mandate for outdoor work. The objectives of the audit were

- to establish the systems, procedures and practices employed by the special enquiry area of Revenue to detect evasion of tax by those unknown to the Revenue Commissioners or those not declaring an additional source of income
- to assess whether the application of such procedures was adequate
- to review the follow-up action including registration and assessment of back taxes.

Extent and Scope of Audit Work Carried Out

Following initial interviews with members of senior management covering such areas as the Revenue strategy to combat the black economy and the organisation of the enquiry function, the audit focused on the SEB in Dublin and three Local Enquiry Units (LEUs) - in Cork, Tralee and Dundalk. Discussions were held with the managers and staff of the SEB and LEUs covering functions, planning, resources, intelligence sources, the gathering, processing and recording of information, and communications and relationships with other areas of Revenue.

Documentation was reviewed relating to systems, business plans, statistical reports, outputs from information databases, project reports and correspondence with government departments and State agencies. Walk through tests were conducted and records scanned for case selection. Samples were extracted and cases were examined by reference to

- enquiry records for source analysis and follow-up action
- new cases referred to central registration and promptness of registration
- new sources of income from existing taxpayers referred to audit
- outcome of referrals to Audit Units.

The Special Enquiry Branch's Role and Operations

The SEB, which operates as a separate Tax District under the aegis of the Office of the Chief Inspector of Taxes, has a unique intelligence gathering role. The Branch was formed in 1979 primarily to combat the black economy. While this remains an important part of its work it has, over the years, taken on other responsibilities. Since the introduction of Self Assessment in 1988/89 it has increasingly taken on a supporting role for Audit by undertaking business observation and monitoring on request. In more recent times SEB has been involved with the Criminal Assets Bureau both as liaison for Revenue and in profiling cases. SEB has also become involved in the National Irish Bank (NIB) Financial Services and Ansbacher (Cayman) Ltd inquiries as national co-ordinator as far as information gathering is concerned. The SEB, which is based in Dublin, works with the LEUs which mainly fall under the compliance function in provincial districts and also liaises with other Revenue divisions. There are a total of 59 staff involved in special enquiry, of which 35 are based in SEB Dublin, with the remainder spread over the 13 LEUs. Table 11 shows the staffing structure of the four areas visited during this audit and the overall grade numbers.

Table 11- Special Enquiry Staff

	Dublin	Cork	Tralee	Dundalk	Overall
Senior Inspector	1				1
Inspector Higher Grade	1				1
Inspector	6	2	1*	1	11
Higher Tax Officer	8	2	1*	1	14
Tax Officer/Assistant	6	4			13
Clerical Staff	13				19
Total	35	8	2*	2	59

** shared with audit*

The essence of the SEB function is the gathering, assimilation, interpretation and dissemination of information on persons, businesses, transactions and sectors of commercial activity. Work may be undertaken on its own initiative, at the request of another area e.g. an Audit Unit, or as the result of a corporate decision. However, the source of much information is the extensive range of third party information received on either a statutory or voluntary basis from other areas of Revenue, from Departments and State Agencies and from external sources, and which is summarised in Table 12.

Table 12 - Third Party Information received by the SEB

Information from Revenue Sources
Stamping Branch - disposals of property or leases
Capital Taxes Branch - probate cases for inspection
Vehicle Registration - various classes of new registrations e.g. luxury cars
Other Tax Districts - cases of interest; Capital Gains Tax cases
Departments and State Agencies
Government Departments - payments to persons or classes of persons on request
Health Boards - rent subsidies, listing of landlords
Local Authorities - business licences; planning permissions
Companies Registration Office
Land Registry
External Information Required by Law
Companies - payments for services in excess of £3,000
Tenants Applying for Rent Relief - details of landlords and property
Letting Agents - details of landlords and property
Financial Institutions - certain interest paid gross
Stockbrokers - nominee holders of securities
Solicitors etc. - receipt of income of others
Other External Information
Outdoor Work and Local Knowledge
Newspapers, Magazines and Other Media
Business Directories incl. Accommodation Guides
Information from the General Public

Information considered useful for current or future enquiry work was recorded on various stand-alone computer systems. In line with Year 2000 compliance policy, most SEB Dublin systems have now been consolidated into one database, which can provide all information on a case, including SEB actions and current status, from a single request. Some 2,000 cases have been entered on the new system since January. Information on the old system, which was compiled between 1990 and 1999, amounted to 52,000 cases of which 1,000 have yet to have their status finalised. Some information

e.g. the property disposals file containing 250,000 records, are still retained on separate systems. The four main systems in Cork hold 42,000 records of which 37,000 relate to property disposals.

All information received into the SEB is initially vetted by an Inspector for cases which merit enquiry action. More than one call may be made in an effort to establish contact with the individual under enquiry. If it is clear that the individual has been operating for some time without making tax returns SEB endeavour to regularise the case by bringing the individual's affairs up to date. In some instances this can involve getting returns and payment for back years. Most cases are closed at this point because either the necessary information has been provided or no further progress seems likely to be made. Previously unregistered cases are referred to Central Registration Section. At the end of this process a decision is taken on the case. Where significant amounts of undeclared income are uncovered, either in respect of new cases or previously undeclared sources, or where returns could not be obtained, the cases are referred for audit to the relevant tax districts. Such references from enquiry activity are included in the pool of cases from which the final sample for audit is selected. In a more recent innovation, some work has recently been done using the information databases in SEB, on linking certain wealth indicators (e.g. large property purchases/sales) to individuals and profiling them from other information available, to establish whether or not they are likely to be tax compliant. The results are outlined in the following table. It is intended to continue with this initiative and expand on the number of cases involved.

Table 13 - Results of Wealth Indicator Project

		Profiles	Audit	Audit Yield £
Cases Profiled	90			
Profiling not Complete		20		
No Action Necessary		38		
Referred to Capital Taxes		1**		
Non Resident		3		
Referred to Audit		29**		
Audit Completed			6	236,700
Audit Ongoing			7*	
For Future Audit			4	
Audit Deemed Unnecessary			12	

* Additional yield is expected in these cases

** One case was referred to both Capital Taxes and to Audit

Examples of direct outdoor SEB activity include the identification and undertaking of projects whereby segments of commercial activity are targeted for surveillance and follow-up enquiries, and business observation and monitoring on request from tax districts. Projects carried out in recent years included security firms, hackney cars, heavy goods vehicles, rented properties on a large housing estate and a small check of headage and premium payments to farmers. However, it is understood that, due to the diversion of staff on to the DIRT inquiry and coordination and involvement in the NIB and Ansbacher inquiries, only one new project was undertaken in 1999. Table 14 gives an analysis by source of the 5,742 previously unregistered cases and 9,926 undeclared sources of income in respect of registered cases which were identified on the SEB Dublin enquiry system in the period 1990 to 1999.

Table 14 - New Cases and New Sources Identified by SEB 1990 - 1999

Source	New Cases	New Sources
Payments for Services Returns	1,277	2,703
L.A. Trading Licences - Taxis & Hackneys	804	125
Rental Income	662	2,516
Information from the General Public	469	417
Referred Leads from Revenue Sources	345	322
Self-Generated Leads	268	258
Review of Probate Cases	222	1,070
Financial Institutions - Deposit Interest	211	1,196
Street Surveys by SEB	120	104
Other Sources	1,364	1,215
Total	5,742	9,926

Two internal reviews which related to aspects of SEB and LEU operations were examined during the course of my audit. The first¹¹, in May 1996, which examined the position from an audit viewpoint, indicated that there were differing views within Revenue on the appropriate focus of SEB resources as between uncovering new cases and undeclared sources of income irrespective of materiality, and the provision of quality intelligence to assist in the selection of potentially significant cases for audit and thereby maximising the value of tax collected.

This report also referred to limited resources for enquiry, a low level of outdoor work in the LEUs and poor communications between SEB/LEUs and the rest of Revenue both in relation to access to and dissemination of information held by the SEB/LEU, and the absence of feedback from the Audit to the Enquiry areas on the value of the intelligence received. The Accounting Officer stated that it was decided by management not to change the primary role and priorities in SEB as the existing screening process for audit cases was in general considered satisfactory. However, arrangements were established for more meetings to be held between SEB staff and Dublin Audit staff to enhance the quality of referrals. Another group was recently established following a National Audit Conference in June 2000 to consider and report on the management and use of information. The group, which is chaired by a Senior Inspector and includes the District Manager of SEB, reports to a project board and ultimately will submit its report to the board for consideration.

The second report¹² in June 1996 made both short term and longer term recommendations for a strategy to maximise the value of third party information received by Revenue. In general the proposals favoured the recording of information on the Revenue mainframe computer for general access as opposed to on stand alone PCs, together with links to the Common Registration System and sophisticated search and query facilities. The Accounting Officer informed me that there have been some developments towards facilitating the more effective correlation of third party data with existing mainframe data.

¹¹ *Intelligence Support for Audit; Report of Review Group, May 1996.*

¹² *A Strategy for Matching Third Party Information; Report, June 1996.*

Audit Findings

The findings arising from this audit are summarised under five headings below. These comments are made in the context of the successful work performed by the SEB and the LEUs in Revenue. An indication of the impact which has been made can be seen from the overall statistic that 15,668 or approximately 30% of the enquiries made by the SEB over the period 1990-99 uncovered new unregistered cases or undeclared sources in registered cases. However, it is considered that a resolution of some of the issues set out below would enable special enquiry work to increase its potential for disruption of the black economy.

Resources and Activities

In recent years the growth in the volume of information received, together with the need to divert resources to other priority areas has resulted in a reduction in some of the more traditional enquiry work, with increasing pressure on the already small overall number of staff allocated. With the exception of occasional projects e.g. security firms, special enquiry appears to adopt a generally reactive approach through scanning incoming data for items of interest, with a focus on the quantity of new cases to be achieved each year, as opposed to a proactive strategy of cross-checking and analysing the large quantity of information held and identifying projects, sectors and wider trends. Particular indications noted included:

- there was a growing SEB involvement with work such as the Criminal Assets Bureau and the NIB Financial Services and Ansbacher (Cayman) Ltd enquiries with a substantial reduction in fieldwork in Dublin and a reduction of eight clerical staff since 1996
- while the inspector has the key case selection and investigation roles in the enquiry area, there was no inspector allocated to enquiry work in five of thirteen provincial tax districts, generally the smaller districts
- some LEUs are attached to the audit function and can be fully occupied in servicing requests arising directly from that audit function, which curtails the follow-up of worthwhile enquiry leads
- work reporting in the enquiry area is case-based; the absence of overall reporting and assessment of work completed can inhibit development and the maximisation of resources available.

Processing, Review and Evaluation of Information

The key resource of the SEB is the extensive range of third party information (Table 12 refers) which is supplemented on an ongoing basis. The points noted during the audit in relation to aspects of the collection, storage and management of the information received would appear to indicate that the maximum benefit is not extracted from the resource:

- the processing of information has fallen into arrears, with priority being given to the most valuable sources. The information on some statutory returns e.g. material interest in unit trusts has not been captured on databases for some years although there is a vetting by senior staff for potentially worthwhile cases.
- the Accounting Officer pointed out that because of the growth in the volume of third party information in recent years, the fact remains that much of it is in paper format and with the pressure on resources, it has not been possible to capture all of it on PC databases. However, it is scrutinised for potential evaders and also retained as reference material for use in audit/investigation case selection.
- while the amount of information accumulated and the sources utilised are very extensive, they are by no means exhaustive; for example, there would appear to be possibilities in the area of

directories (currently used only for reference), the Internet and e-commerce, and share transactions.

- the existing sources of information would not appear to be subjected to review and evaluation to establish how they could be best utilised and to identify which are most productive.
- while the new Year 2000 compliant consolidated enquiry system in SEB has the capability to provide details of a range of economic activities on a case basis, the potential of the large amount of data accumulated on other databases in SEB and the LEUs is not fully exploited.

Co-ordination and Liaison

The efficiency of special enquiry is diminished by the lack of co-ordination and liaison between the SEB and LEU areas and by the lack of a meaningful flow of information to special enquiry from the other areas of Revenue, outside of requests for intelligence data on specific cases:

- there is no sharing of information held on SEB and LEU databases
- contact between the SEB and LEUs is limited to co-ordinating figures for the annual Business Plan; there is no national co-ordination or evaluation of the work of the units; SEB are endeavouring to improve information sharing through the organisation of familiarisation sessions regarding the work of the SEB and the type, benefits, and availability of the information held
- there is rarely feedback to the special enquiry area in respect of cases referred to other areas for follow-up; this hinders evaluation of the quality of information sources, the work of the enquiry section and assessment of the revenues collected arising from enquiry work. Motivation of enquiry staff could also be enhanced with such feedback.

Information from Government Departments and State Agencies

Government Departments are required by law to forward to Revenue, on request, details of payments to persons or classes of persons and such information is received by the SEB. Information is also readily supplied by the Local Authorities.

However, the performance of the Health Boards and, in particular, the former Eastern Health Board, in relation to a Revenue request for the supply of the names and addresses of the landlords of properties in respect of which rent subsidies are paid, together with the aggregate sums paid in each tax year, has been dilatory. SEB efforts to obtain details of the payments date back to 1992 when the annual payout was £8m. The current overall amount paid is of the order of £100m in respect of over 36,000 tenants. In an effort to resolve matters, a specific legislative provision was introduced in the 1995 Finance Act to little early effect. Revenue efforts continued through the Department of Social, Community and Family Affairs and information which included landlord details finally began to flow from mid-1999. However, the following points were noted:

- information supplied was to a large extent 'point in time', in that a weekly rate on one current date was quoted, as against the aggregate paid for the tax year as requested and required by law
- despite SEB efforts, the bulk of the information is current and only two Boards have returned earlier years
- even on this restricted basis, the Northern Area Health Board (which has responsibility for the management of Supplementary Welfare Allowances in the Eastern Region in the transitional period) has only provided information to date on 6,600 or less than 25% of cases
- while the original request was made in 1992, it was not until April 2000 that Revenue were informed that the key details of landlord name and address were finally to be captured on computer for each new claim; the first return as specifically required by law since 1995 would then be expected in April 2001

- information may still be incomplete as the new development was not operated immediately due to industrial action.

The Chief Executive of the Northern Area Health Board has informed me that while the provisions of Section 14 of the Finance Act, 1995 placed an obligation on the Health Boards to provide information on landlords to the Revenue Commissioners, it had been pointed out to Revenue and the Department of Social, Community and Family Affairs that the Health Boards did not have details of landlords on computer file, but that these were held on claimants' personal files at local offices. At this stage, there were significant resource implications in providing that information on a historical basis. She stated that proposals which would have enabled the Board to comply *i.e.* amendment of the ISTS computer system to include landlord details, or the provision of additional resources to manually extract the information requested were not considered feasible at that time by the Department of Social, Community and Family Affairs. The Chief Executive also informed me that following receipt of the first formal request under the Finance Act, 1995 for a return of information in relation to landlords for the year ended April 1996, a number of meetings were held with the Department and Revenue following which, as a short-term solution, it was agreed to use the data already on the computer system. As an initial check on the method, a computer file of all rent payments in the Eastern Health Board area was sent to Revenue for testing in March 1997. That was intended to enable Revenue to check which premises, as opposed to which landlords, were not already in the tax net. With regard to the longer term supply of information on the names and addresses of landlords, it was agreed to look for a possible solution using the new ISTS system. In September 1998 Revenue informed the Department that it was not satisfied with the information which had been provided as, without landlord details, it had not proved possible to match the addresses of the premises against tax data. Following further meetings between the Department, Revenue and representatives of the Health Boards, it was agreed in November 1998 that the Health Boards would supply data on landlords and rent supplements, subject to certain qualifications, to a database in the Department from which the information would be supplied to Revenue. The Chief Executive confirmed that this policy had been adopted by the three Area Health Boards and that copies of all new applications and rent review forms with landlord details are now forwarded to the Department of Social, Community and Family Affairs as agreed.

Action Taken in Cases Uncovered

All new cases are referred to the Central Registration Section and, if it is clear that an individual has been operating for some time without making returns, the SEB endeavours to regularise the case by getting returns for the back years which are then sent on to the relevant tax district. SEB can check the subsequent registration of any case from the central computer registration system. Of an audit test sample of 20 new cases, all were registered promptly.

All new cases not finalised by SEB and all new sources of income in respect of registered taxpayers, are referred to Audit Districts (PAYE cases are referred to the relevant PAYE district). There was no indication of the outcome available in the enquiry area, so the relevant papers in a sample of 40 cases were requested for review from the relevant Audit Units. The majority of these cases had been referred during 1999 (11) and 1998 (21), while the others dated back to 1995 (3) and 1993 (5). Details of the current position on these cases is shown in Table 15. Of the 20 cases which were subjected to review or audit by the Audit Units, additional liability was assessed in 10 cases and an advance payment of £50,000 has been received in one ongoing case. The largest values of the completed assessments were £900,000, £235,000 and £20,365 (each excluding interest and penalties), with the remainder in the £1,000 to £10,000 range.

Table 15 - Action Taken in Sample of 40 Cases Referred to Revenue Audit Units

	SEB Dublin	LEU Cork	Total
No Response from Audit Unit	1	-	1
No Trace of Enquiry Memo in Audit Unit	5	2	7
No Action Taken by Audit Unit to Date	6	-	6
Decision to Audit; Not Initiated to Date	-	6	6
No Audit Action To Date	12	8	20
Audit Review; Source Declared; No Further Action	2	-	2
Audit Commenced; Not Yet Complete	2	5	7
Audit Completed; No Additional Liability	1	-	1
Audit Reviewed or Completed; Additional Liability	8	2	10
Audit Action Under Way or Complete	13	7	20
	25	15	40

The Accounting Officer pointed out that because Audit Districts/Units adopt several approaches to case selection, including extensive screening of cases themselves, referrals from SEB or the LEUs may not always be selected immediately or at all for audit.

Conclusions

- A general review of the varied sources of information available to the SEB and of the volume and detail of much of that information, would appear to indicate that it should be quite difficult for a person to participate in the black economy to a material degree for any considerable period without coming to the attention of the SEB.
- However, the extent to which tax evaders are identified for follow-up action in an efficient and comprehensive manner is dependent on how well the challenge provided by the sheer volume and variety of the information is met. Essential requirements for the optimum efficiency and effectiveness of the activities undertaken would appear to be the identification and utilisation of all sources of intelligence, the storing and pooling of information (subject to immediate operational requirements) in a manner which facilitates full processing and analysis, and the possibility of common retrieval and review, together with a culture of co-ordination and co-operation between SEB/LEU and the other branches of Revenue.
- Being the point of receipt of such a volume of quality information and having the capability to undertake outdoor observation and investigative activity places a particular responsibility on the SEB in relation to restricting and minimising the extent of the black economy through the detection of instances of tax evasion, the identification and registration of offenders and the referral of material cases to audit. Examples of the type of activity conducted by the SEB and LEUs together with an indication of the outcomes of such work are given in this report. However, it would appear that the capability and efficiency of the SEB has been diminished to some extent by the factors outlined in the findings of this report, including the reduction in the level of activity, the failure to extract maximum benefit from the information received and the low co-ordination and liaison between the SEB and LEU areas, and between both of these areas and the rest of the Revenue organisation. The Accounting Officer indicated that the reduction in the level of activities was due to increased demands in other areas but stated

that within the framework of the resources available both human and technological, significant results have been achieved.

- The residual difficulties in obtaining information on landlords from the Health Boards and the full and efficient implementation of the provisions of Section 14 of the Finance Act, 1995 need to be addressed as a matter of urgency.
- In the light of the equity and deterrence considerations inherent in the capture of tax evaders operating fully or partly in the black economy, the seemingly low priority accorded to some cases forwarded by the SEB for audit is somewhat surprising. While the potential tax take from some enquiry-sourced cases may often be less than that of other cases competing for scarce audit resources, Audit Districts should also take due account of equity and deterrence considerations when selecting cases. The commitment to follow-up action may be improved by the introduction of a requirement for each Audit Unit to maintain a formal record of cases received for audit from SEB/LEU, together with the current status and ultimate outcome of all of such cases, with a periodic report to the referring Enquiry Unit.

By way of general comment on the report, the Accounting Officer informed me that, apart from current strategies for tackling the black economy, Revenue had recently completed a 'root and branch' review of its organisational structure with a view to enhancing its overall effectiveness. However, the implementation of proposals awaited the outcome of the current Department of Finance review of Revenue. With regard to the operational areas which were most of interest in the context of this audit, the changes envisaged the establishment of a Large Case Division and a series of new Revenue Regions, with each new division under the direction of one individual at Assistant Secretary level. The Large Case Division would have responsibility for all the tax affairs of large corporates and high net worth individuals, while the new regions would have responsibility for all the tax affairs of all taxpayers in their areas, except large cases. He stated that the aim was to build up Revenue local intelligence and enquiry capability and, at the same time, to ensure that the successes that had been achieved and acknowledged in this report together with the skills and expertise which existed in the SEB were preserved and developed.

The Accounting Officer also stated that while ensuring that there was clear responsibility for the affairs of individual taxpayers, the changes were also designed to improve the manner in which information available to Revenue was used and to facilitate the build up of a more complete picture both of taxpayers and of economic activity in a particular area. In addition, he considered that the locating of management and accountability for Revenue operations close to local economic activity should enhance Revenue effectiveness in both the gathering and application of intelligence data. Revenue also intended to develop its research and analysis capability to build up knowledge and expertise of specific sectors to allow more ready identification of deviation from industry norms and trends. The Accounting Officer added that Revenue was currently examining its overall management information and systems in the context of developing the civil service wide generic financial management model. The aim was to ensure that the best possible information was available for monitoring the effectiveness of its strategies and to allow timely and corrective actions to be taken where necessary.